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UNCLAS SECTION 01 OF 02 HARARE 001188

SIPDIS

SENSITIVE

STATE FOR AF/S, AF/EX, HR/OE
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIAMOND
LONDON FOR CGURNEY
PARIS FOR NEARY
NAIROBI FOR PFLAUMER
PASS USTR - ROSA WHITAKER
RIO FOR WEISSMAN
PRETORIA FOR AG ATTACHE, HELM
TREASURY FOR ED BARBER AND C WILKINSON

E.O. 12958: DECL: N/A

TAGS: [ECON](#) [EAGR](#) [ETRD](#) [ZI](#)

SUBJECT: TOBACCO SELLERS GRANTED A SELECTIVE
DEVALUATION

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1. (SBU) On May 16, after two days of boycotts by tobacco farmers of the sales of their crop due to an uneconomic return assured by the official exchange rate, the Finance Minister Simba Makoni announced a special support price for tobacco. The scheme equates to an 82 percent forex devaluation for growers, and promises tobacco sellers a price of Zim \$200/kilogram, an amount the Government determined after a hasty review of production costs to ensure grower viability. However, we contacted the industry and heard a very different minimum price demand from farmers, small, medium and large scale, who want and are still pushing hard for a guaranteed floor price of about Zim \$350/kg. They claim the \$200 price is a guaranteed loss-maker, and will drive all producers out of business. Discussions on this minimum price issue are continuing, and there is a real possibility of another sales boycott should additional relief not be extended to tobacco sellers.

2. (SBU) The problem started on May 14 when the tobacco sales floors opened. Auction prices on the first day averaged about US \$1.85/kg, in line with world prices and given the quality of the product on offer. (Zimbabwe's tobacco auction period usually runs about four months, and large-scale growers typically hold back their best product for the latter third of the season hoping for price firming and a devaluation. The first part of the sales season is, therefore, characterized by commercial farmers offering their scraps and low-quality products, with small and medium-scale growers bringing in all ranges of product because they need the cash now, either to pay back the bank or buy groceries.) Opening day tobacco sellers did the math, and realized that at US \$1.85/kg and at the official exchange rate they would only put in their pocket about Zim \$100/kg. The small and medium-scale growers said no, and tore up the sales tickets. The large-scale producers merely told their truck drivers not to unload. When no sales occurred on May 15 the GOZ, nearly panic-stricken, sent in a delegation led by Makoni to work out a deal. After about 36 hours of open and closed sessions, at 2:00 a.m. on May 16 the Minister announced this package.

3. (SBU) In coming up with the scheme, according to press reports, Makoni considered three variables: a) an average buying price of US \$2/kg, b) the official rate of Zim \$55, and c) a viable threshold price for growers of Zim \$200/kg. To close the gap (between $2 \times \$55 = \110 and the viability price of \$200, or Zim \$90/kg) and buy the GOZ time, the Finance Minister granted the subsidy even though there is no provision in his budget for the measure. Another way of looking at the package is that the government is offering an exchange rate of Zim \$100 per US \$1 to tobacco sellers (versus the official rate of \$55, hence the 82 percent devaluation described in the opening paragraph). The core of the problem facing the Finance Minister and the GOZ is the six to seven times multiple between the official rate of US \$1 equals Zim \$55, and the parallel market rate of Zim \$325 to \$350. Such a spread allows great latitude for shady dealing and windfall profits, and as the ruling party considers such transactions to be in their domain, we are seeing a struggle between the exporters and the government over how the spoils are shared or divided.

4. (SBU) Comment: We do not believe this current arrangement will hold for long. It is ad-hoc and based on no established policy, other than putting out fires.

Producers say the price of Zim \$200/kg is about half of what they need to make money, and they intend to fight for an increase. Calling it a subsidy, as the government is doing, is a chimera to avoid being caught taking advantage of the official/parallel rate divide. This is not any way to run a country, unless it's into the ground. End Comment.

SULLIVAN